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NSC BRIEFING

11 December 1957

IRANIAN FOREIGN POLICY

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- I. [REDACTED] has reported that the Shah is threatening to change his policies if more aid is not received from the West.
- A. The Shah is deeply concerned over the level and character of economic and military aid being received by Iran and warns that unless Western aid is increased (he has mentioned a \$50 million loan) he may be forced to consider:
1. Withdrawing from the military committee of the Baghdad Pact.
 2. Accepting Soviet economic assistance.
- B. The Shah is probably genuinely concerned over the advancing Soviet influence and prestige and the concomitant decline of western influence and prestige throughout the Middle East.

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- II. Although the Shah has many ties with the US which would deter him from reorienting his foreign policy, he could come under increasing Soviet influence (i) inadvertently through a rapid expansion of economic relations with the USSR or (ii) because he might ultimately become convinced, as a result of intensive Soviet propaganda, that the power of the USSR is such that he must do business with it.

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A. On 17 November, [REDACTED] "We believe the Shah entirely capable of accepting Russian supplier credit for large development projects***. It makes no difference that this does not relieve the budget. Damage from such acceptance would probably become irreparable."

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1. In another report on the same day, [REDACTED] "The Shah thinks he is more clever than he is in handling the Russians. ***A real possibility exists that the Shah, particularly if piqued by inflexible US response, will feel he can with impunity make arrangements with the Russians***."

III. The Shah is probably motivated not only by concern over Soviet pressures but by (i) the belief that the US is an easy mark at this time, and (ii) also by the need to keep under control serious long-term domestic threats to his rule.

A. The Shah is in a race between achieving economic improvements which directly benefit the people and rising dissatisfaction which is increasingly focusing on his person and the monarchy.

1. The Shah's hopes of winning the race are in part dependent on Iran's development program which aims to improve conditions for the entire population.
2. To cover the expected budget deficit in 1958 by means other than foreign aid would probably require both a diversion of oil revenue from the development program and tax reform. Such a step would evoke unpopular reaction in Iran and might bring public dissatisfaction to a critical point.

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B. To forestall the gathering opposition, the Shah recently arrested and interrogated some 70 nationalist leaders.

C.



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IV. Thus, a situation is developing in Iran which could seriously jeopardize US prestige and the substantial US investment (about \$1 billion - economic and military) in that country.

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